

October 2, 2009

To: Board of Governors of Exhibition Place

From: Business Development Committee

Subject: **Exhibition Place Hotel Development Plan and Agreement to Lease**

Summary:

A Request for Proposal for the Hotel Development at Exhibition Place was released through the City of Toronto Purchasing on April 17, 2007. Both of the two hotel developers short-listed through a previous REOI process submitted a proposal and the Board approved HK Hotels LLC (“HKH”) as the successful proponent. In March 2008, the Board approved a Letter of Intent (LOI) between the Board and HKH and in the summer of 2008, a Stage 2 Archeological Investigation was conducted on the proposed hotel site by Archeological Services Inc. engaged jointly by the Board and HKH. The full archeological report was received from the consultant in March 2009.

Subsequent to receipt of the full Stage II Archeological Study, HKH engaged an architect, Maragna Architects Inc., to do a preliminary hotel design for the first phase of the proposed hotel. A summary of the proposed design plan is attached as Appendix “B” to this report along with a full set of drawings as Appendix “C”. HKH has also engaged Archeological Services Inc. to provide input to the design of the heritage elements and how the project relates to these elements and Urban Strategies to address any planning issues.

Also attached to this report is:

- Appendix “D” is an opinion by the Board’s consultant on the economics of constructing a hotel in Toronto and at Exhibition Place in 2009
- Appendix “E” from the Board’s hospitality industry consultant outlines the potential uplift to business opportunities at Direct Energy Centre and Allstream Centre from an on-site hotel
- Appendix “F” is a letter of support from Mr. David Whittaker, Tourism Toronto
- Appendix “G” is a letter from Mr. Williams, General Manager, Economic Development, Culture & Tourism

Finally, Appendix “H” is a confidential report from the Board’s consultant on the rental structure proposed in the LOI.

Since the meeting of the Business Development Committee on September 3, 2009, meetings have been held to present the proposal and receive input - with the community on September 14, 2009, the archeological community on September 10, 2009 and City Planning staff on September 25 and 28, 2009.

The Confidential Attachment I details the financial terms of the proposed lease with a report from the Board's consultant reviewing these terms.

### **Recommendation(s):**

**It is recommended that the Board:**

- 1) Subject to approval by City Council, approve of entering into a 49-year lease agreement with HKK substantially on the terms and conditions contained in this report, Appendix "A" and in the Confidential Attachment 1 to this report and such other terms and conditions satisfactory to the Board's Chief Executive Officer and the City Solicitor;**
- 2) Direct that the confidential information contained in Attachment 1 to this report not be released publicly in order to protect the competitive position and future economic interests of Exhibition Place and the City of Toronto;**
- 3) Subject to the alternative site plan review process developed for Exhibition Place by City Planning, approve of the HKH Design Proposal for the first phase of a hotel development consisting generally of a podium and tower (approximately 26 floors for tower) as set out in the proposed design plan and situated on the Phase I lands all as provided in Appendices "A", "B" and "C" attached; and,**
- 4) Request the City of Toronto complete all necessary steps to declare the hotel lands surplus.**

### **Decision History:**

Meeting Date	Decision
June 1998/Jan 1999	Approval of 1998 Exhibition Place Program & Development Concept Plan for Exhibition Place with the development of a hotel/conference centre complex a first priority
September 2006	Directed development of REOI for hotel development
November 2006	Public release of REOI for hotel
March 2007	Approved two successful proponents of REOI and directed release of RFP to the two proponents
September 2007	Approval by the Board of HKH as the successful proponent of the RFP process and directed staff to enter into exclusive negotiations leading to a letter of intent
March 2008	Approval by Board of Letter of Intent (LOI) with HKH containing all substantive terms and conditions
January 2009	Completion of Stage II Archeological Assessment of hotel site
April 2009	Schedule Revision

September 3, 2009	Meeting of the Business Development Committee of the Board
September 10, 2009	Meeting with archeological groups
September 14, 2009	Meeting of the community
September 25 & 28, 2009	Meetings with City Planning
October 1, 2009	Meeting of Business Development Committee of the Board approving the report entitled Exhibition Place Hotel Development Plan and Agreement to Lease

#### Financial Implications and Impact Statement:

The financial terms of the LOI as set out in the Confidential Attachment provide both a fixed minimum rent and additional percentage rent to the Board increasing over the initial 49-year term. In addition, it is estimated that the Hotel will pay approximately \$1.0M annually in property taxes (municipal share is 50%) and approximately 150 FTE jobs will be created once the Hotel is in operation.

As important as the positive financial return to the Board in the form of rent and percentage rent is the huge marketing value for Direct Energy Centre and Allstream Centre of an on-site hotel as detailed below in this report.

With respect to parking inventory which will be displaced because of the hotel construction and operations, the Phase I hotel footprint represents a temporary loss of 700 parking spaces in Lot 1 during construction. However, it is likely that these vehicles will be relocated to other parking lots and thus no lost income will result to Exhibition Place.

#### Issue Background:

The RFP for the Hotel Development was released through the City of Toronto Purchasing Division on April 17, 2007 with a deadline for submissions of July 17, 2007. Two developers submitted proposals and the Evaluation Team recommended HKH as the successful proponent and the Board approved of entering into exclusive negotiations with HKH to develop the terms and conditions of a proposed Letter of Intent (LOI).

#### Comments:

##### Hotel Development in the GTA and Toronto

As noted above, through its 1999 Development Concept Plan, the Board set a priority to develop a hotel on the grounds and over the last 10 years staff have been working at achieving this goal. It has not been an easy task and negotiations with the other three interested proponents could not be concluded for a variety of reasons.

As indicated in the attached opinion from the Board's hotel consultant (Appendix "D") the financing of hotel development in Canada has always been more challenging than other forms of commercial real estate. With construction costs ranging from \$175,000 to \$350,000 per room, a

typical 200-room three star hotel would require equity of \$15.0 to \$20.0M in order to secure mortgage financing.

With respect to hotel occupancies in Toronto, the occupancy levels stalled for several years with new supply coming into the downtown core although in 2008 occupancy in downtown Toronto reached 71.5% - the highest level reported since 1998. With the worldwide economic downturn in 2009, occupancy levels in Toronto have decreased to 63.4%. Despite the many challenges facing the hotel sector, construction of new hotels in Toronto has continued and HKH's interest in moving forward with this project has been very positive.

Mr. Hawkins in his letter indicates that demand for the Exhibition Place hotel will come from three sources:

- Local area businesses – conversion of industrial buildings to multi-tenant commercial use will continue around Exhibition Place and as the business community evolves and matures, demand for traditional commercial accommodation will increase.
- Residential Market – the residential market around Exhibition Place is growing rapidly with the majority of urban condominium units having floor areas ranging from 450 to 700 SF. Neighbourhood hotels could provide “friends and family” rates to service this residential community.
- Major events and on-site activity – the most important source of demand will be those participating in events at Exhibition Place whether spectators, exhibitors and conference/meeting attendees.

In summary, hotel developments are considered by lenders and investors to be a higher risk form of real estate and as you move from Toronto's central business district the risk increases.

#### Requirement for Hotel on Site

Generally, all event planners and tradeshow organizers cite the convenience and availability of hotels as one of their primary criteria for selecting a location and facility for their events. The present cost of transportation (i.e. busing thousands of exhibitors and/or delegates from downtown hotels) is an expensive line item in a tradeshow budget and causes organizers to make a decision based on the proximity of a headquarters hotel. While Direct Energy Centre has always had a “host hotel” partnership with a city hotel, the location outside of Exhibition Place still makes transportation costly and time consuming for an organizer. Transportation for a three-day tradeshow to and from the downtown core could easily exceed \$100,000 in expenses for the tradeshow. The development of a headquarters hotel property at Exhibition Place will make Direct Energy Centre more appealing to tradeshow organizers, especially those from the United States. The opening of Allstream Centre in October 2009 will dramatically increase the need for an “on-site” hotel to support the conferences, meetings and conventions that will be attracted to the site. The hotel will be the final “piece of the puzzle” in launching Exhibition Place as a competitive venue in North America for major tradeshows, mid-size conferences and meetings.

Recently, Conventions, Sports & Leisure International, a leading advisory and planning firm specializing in providing consulting services to the convention, sport, entertainment and visitor

industries undertook a study on the criteria that show and conference organizers are looking for when choosing a site. The survey indicated that:

- convention and tradeshow planners routinely cite hotel rooms near the show facility as a very important criterion for site selection (assuming the facility can accommodate their event). In fact, surveys conducted for this study show that “hotels proximate to the Center” was cited as a critical feature or amenity that event planners consider when evaluating a destination, and that 93 percent of planners require a headquarter hotel attached or adjacent to the center
- one of the most important aspects in attracting non-local conventions, conferences, meetings and other related events is the availability of committable, convention-quality hotel rooms
- from a meeting planner’s perspective, assembling a room block that includes significant inventory within close proximity to the facility is desirable

In another report, Trade Show Executive’s 5<sup>th</sup> Annual Report on Hotel/Convention Center Complexes just published in 2009, 72% of the major convention centers in North America feature a hotel that is attached, adjacent, across the street or within the building. Direct Energy Centre combined with Allstream Centre provides 910,000 SF of prime exhibit space and 187,000 SF of Meeting/Flex space which puts it within the top 9 venues in North America. All of the other 8 competitive North America venues have on-site headquarters hotels. The experience to-date from the Exhibition Place marketing department is summarized in the attached Appendix “E” which is a letter from Horwath HTL. It is the opinion of Mr. Rosen that the potential uplift to bookings in Direct Energy Centre and Allstream Centre could materialize with the construction of an on-site hotel.

In addition to the needs of Direct Energy Centre and Allstream Centre clients, a hotel would be of benefit to other tenants and users of the grounds such as the Royal Agricultural Winter Fair, Toronto Honda INDY, CNE, would support the out-of-town visitors to Medieval Times and special occasion/wedding business at the Liberty Grand and the major sporting events at BMO Field.

## HKH

HKH is a privately run company that successfully operates 4 boutique hotels in New York City and a new resort hotel in Prague which represent in total over 300 rooms and 250 employees. While HKH has not constructed or managed a single hotel property as large as the one proposed for Exhibition Place, Mr. Kallan, the principal shareholder, has managed many substantial hotel properties in Europe and the United States. Mr. Kallan has put together a very knowledgeable team for the development, construction and management of the Exhibition Place hotel. It was also evident throughout our negotiations and working with HKH, that Mr. Kallan as an individual, has the financial ability to finance the project through equity and loans.

## Summary of Design Plan Proposed

The proposed design by HKH demonstrates a well-thought out urban master plan for the hotel site. A Summary of the proposal can be found in Appendices “B” and “C” attached. Some of the key parts of the physical design are as follows:

- Hotel to be a year-round attraction, with resort style amenities (tennis courts, pool, health/exercise sports club component, green spaces)
- Phase I includes a podium of 4 levels with the 320 guest rooms occupying the 5<sup>th</sup> to 26<sup>th</sup> floors with the top floor dedicated to presidential suites
- The architecture of the tower contemplates a slim tower with a combination of glass and solids with the mechanical space embedded within the top two floors on the north side. Each floor of the tower will have approximately 15 or 16 guest rooms
- Parking will be accommodated underground for 400 cars with two access ramps
- Key characteristic of Exhibition Place is the open space and its extensive green areas and the hotel design aims to seamlessly integrate architecture, landscape and archeology with 6 gardens to the north and south of Stanley Barracks
- North façade will be aligned with face of Allstream Centre to create a tree-lined promenade along Princes' Boulevard
- Greening strategy extends to the built form with planted courtyards at the ground floor level, roof gardens at 5<sup>th</sup> and 26<sup>th</sup> floor levels and a series of smaller gardens in the hotel tower mass
- The development will incorporate ease of access at grade to adjacent buildings and underground connections are contemplated to Allstream Centre
- Amenities include café, restaurant, bar, 28 meeting rooms (approx. 5,000 sf), roof top terraces, balconies, health spa
- Committed to Toronto Green Standard for New Construction and LEED Silver rating design standard and will have due regard for migratory birds and will consult with FLAP;
- Plan includes linkages to Stanley Barracks which will be renovated to include the excavation of the former Enlisted Men's Barracks and development of a protected showcase of these barracks and other archeological features within a grand plaza in front of Stanley Barracks
- Hotel will be themed similar to the boutique hotels in New York – very effective marketing tool
- HKH is an experienced hotel developer and operator and would carry these roles forward to the Exhibition Place property

#### Results of Meetings to Date

The comments received from all the meetings to date (local communities, archeological community) have all been very supportive of hotel concept. Some of the initial comments related to environmental design, bird migration and accessibility issues are now specifically addressed in the LOI. Initial discussions have also taken place with the CNE General Manager and the Toronto Honda Indy and both are supportive of the project as it will address the hotel needs of these two major events.

Finally, the hotel developer understands that this is just the beginning of the public process for this development and is looking forward to future input and has always undertaken this kind of process with respect to his other hotel properties in New York. Initial meetings have also been held with City Planning staff to establish the alternative site plan process which will begin as soon as City Council has approved of this development.

## Schedule

The proposed schedule for this project as outlined in the LOI attached as Appendix “A” is as follows:

October 1, 2009	Board of Governors Business Development Committee
October 8, 2009	Special meeting of the Board of Governors
September – December 2009	Declaration of Development Plan lands as surplus by City
September – December 2009	HKH satisfied on soil/environmental conditions, title and all other due diligence including union issues
November 1, 2009	City of Toronto Executive Committee
November 30 & December 1, 2009	City Council
January 1, 2010 – September 30, 2010	Completion of alternative site plan process with City Planning & completion of contract drawings for building permit application by HKH
June 30, 2010	Finalize & execute Lease
December 31, 2010	Deliver letter of intent from recognized lender to provide necessary construction and (at HKH’s option) mini-permanent financing for the Project. Deliver letter of intent from a qualified investor(s) to provide necessary equity financing for the Project
May 1, 2011	Building permit issued and construction begins
October 1, 2011 – October 1, 2013	Construction (approx 24 months)
November 1, 2013	Opening of the hotel

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